

Life After Enron: Ethics and the Accounting Profession

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Issues for this Workshop

What is the public perception of the accounting profession's honesty and integrity?

How ethically literate is the accounting profession?

What can accountants, regulators and education providers do to enhance ethical literacy?

How can we foster a more ethical society--at work and at home?

Gallup Poll on Honesty and Integrity in the Professions - December, 2002

- 1 Nurses
- 2 Druggists, pharmacists
- 3
- 4 Grade and high school teachers
- 5
- 6 Policemen
- 7
- 8 Funeral directors
- 9
- 10

Gallup Poll on Honesty and Integrity in the Professions (continued)

11 Journalists

12

13

14

15 Business executives

16 Congressman

17

18

19

20 Car salesmen

21 Telemarketers

Heinz' Dilemma

A woman was near death from cancer. One drug might save her, a form of radium that a druggist in the same town had recently discovered. The druggist was charging \$10,000, ten times what the drug cost him to make.

The sick woman's husband, Heinz, went to everyone he knew to borrow the money, but he could only get together about half of what it cost. He told the druggist that his wife was dying and asked him to sell it cheaper or let him pay later. But the druggist said "no."

Heinz is desperate and thinking about breaking into the druggist's store to steal the drug for his wife.

Why or Why Not?

Should Heinz steal the drug?

If Heinz doesn't love his wife, should he steal the drug for her?

Should Heinz steal the drug for a stranger? for a pet animal that he loves?

Should people do everything they can to save another's life?

It is against the law to steal. Does that make it morally wrong in this case?

Should people do everything they can to avoid breaking the law?

Stage 6
Universal Ethical
Principles
Above the Group

Stage 1
Obey or Pay
Outside the Group

Stage 5
Critical Thinking
Above the Group

Kohlberg's Six Stages

Stage 2
Self-Interest
Outside the Group

Stage 4
Law and Order
Inside the Group

Stage 3
Peer Pressure
Inside the Group

Stage 1

Obey or Pay

I should
do as I'm told.

Why: To stay out of
trouble.

Stage 2

Self-Interest

The reason to be
nice to people is so
that
they will be nice to
you.

Why: Look out for
number one.

Stage 3

Peer Approval

The reason to be
good is to
please other
people.

Why: So people
will like me.

Stage 4

Law and Order

Being good means obeying the law and being a dutiful citizen.

Why: To keep the system from falling apart.

Most adults are Stage 4 thinkers.

Stage 4 thinking is the beginning of mature decision making.

Stage 4 thinkers believe that the right thing is contributing to society, a group, or an institution.

Stage 4 thinkers take the point of view of the system that defines rules and roles. They have internalized societal rules and expectations, particularly those of the authorities.

What are the limits of Stage 4 thinking?

Not all ethical problems can be resolved using rules, laws, and codes of ethics.

We cannot anticipate all ethical dilemmas, particularly those created by technology.

What are the limits of Stage 4 thinking?

(cont.)

We put too much moral authority into legislation and are thus coerced to virtue.

Man-made laws can be "gotten around."

Never have the stakes been higher:

Large, complex systems.

Smart people.

Missing ethical chips.

Stage 5

Critically Examined Values

The rules of society are supposed to exist for all, but if the rules become destructive, or if one party doesn't live up to them, then the contract is no longer binding.

Why: To keep my society from falling apart.

Stage 6

Universally Accepted Principles

Universal principles establish right and wrong. These principles are established by individual reflection and may even contradict laws.

Why: Because my conscience tells me what to do.

Domains of Ethics

Personal

Lifestyle

- Drinking
- Smoking
- Gambling
- Cursing
- Debt
- Nudity
- Sexuality

Ideological

- Condom/Needle Distribution
- Capital Punishment
- Abortion
- Euthanasia
- Gun Control
- Welfare

Six Pillars of Character

TRUSTWORTHINESS
RESPECT
RESPONSIBILITY
FAIRNESS
CARING
CITIZENSHIP

Religious

Sins

- Ten Commandments
- Blasphemy & Heresy
- Violating Dietary Laws
- Sexual Behavior
- Lying & Theft
- Gluttony
- Sloth

Virtues

- Faith
- Hope
- Charity

Cultural

Customs

- Birth & Death
- Coming of Age
- Marriage
- Divorce
- Fidelity
- Gifts/bribes
- Punishment

Mores

- Gender Roles
- Religious Observation
- Fighting & Violence

Manners

- Greeting Rituals
- Deference to Women
- Deference to Elders
- Mealtime Etiquette

Universal

- Respect
- Responsibility
- Justice
- Accountability
- Compassion
- Charity
- Kindness
- Fairness
- Tolerance

- Love
- Unity
- Respect for Laws
- Honesty
- Promise-keeping
- Trustworthiness
- Moral Courage
- Integrity
- Loyalty



Average Defining Issues Test Scores

65.2	Moral philosophy and poli science graduate students
59.8	Liberal Protestant seminarians
52.2	Law students
50.2	Medical students
49.2	Practicing physicians
47.6	First year dental students
46.3	Staff nurses
42.8	Graduate students in business
42.3	College students in general
41.6	Navy enlisted men
40.0	Adults in general
38.1	Accountants
35.0	Real estate licensees
31.8	Senior high school students
23.5	Prison inmates
21.9	Junior high school students
18.9	Institutionalized delinquents

DIT Scores for Different Accountant Groups

49.6	Senior-level female accountants (Midwest)
47.7	Accountants with liberal arts education
46.8	Supervisory-level accountants
44.7	Accountants at staff level
44.2	Canadian auditors
43.6	Third-year staff accountants
43.0	Second-year staff accountants
42.4	Accounting seniors
41.9	Accounting managers
41.4	Senior-level male accountants
40.0	American auditors

DIT Scores for Different Accountant Groups (cont.)

38.6	Internal and governmental auditors
38.5	Manager-level accountants
38.1	Accountants with business education
38.1	Senior manager-level accountants (Midwest)
37.1	Partner-level accountants (Midwest)
35.7	Manager-level accountants
35.6	Senior-level male accountants (Midwest)
32.2	Partner-level accountants

Accounting Students

47.4	Liberal arts accounting seniors
45.8	Female accounting majors
45.1	Accounting majors in ethics course
41.8	Graduate level accounting majors (Southeast)
38.6	Graduate level accounting majors (Northeast)
37.4	Business school accounting seniors (Northeast)
37.1	Business school accounting majors (Midwest)
36.3	Male accounting majors
35.5	Business school accounting majors (Southeast)
34.5	Undergraduate accounting majors (Southwest)

Small Firms vs. Big Firms

Eynon, Hill and Stevens (1997) found that CPAs from the Big 6 firms had higher DIT scores than their counterparts in small firms.

Rau and Weber (2002) compared the moral reasoning of auditors from Big Five and non-Big Five firms and found that auditors from Big Five firms used a higher stage of moral reasoning when resolving ethical dilemmas.

See also Rau's 2003 "The Impact of the Enron Mega-event on Auditors' Moral Reasoning" at http://aaahq.org/AM2003/EthicsSymposium/Session%201_3.pdf

CPAs and Self-Interest

Most CPAs in the sample indicated a preference for banning commissions, referral fees and contingent fees.

Those CPAs holding a higher financial stake in public accounting, namely partners, score significantly less than CPAs with a lesser stake.

There was a significant negative relationship between financial stake and moral reasoning.

These results seem to suggest that self-interest among CPAs may influence their moral reasoning.

Gender

Hill and Stevens (2002) reported significant differences in gender: female moral reasoning ability is generally higher than male.

Group Dynamics and the Moral Reasoning Ability of Accountants: Implications for the Curriculum and the Profession (Extended Abstract) January 18, 2002. <http://aux.zicklin.baruch.cuny.edu/critical/html2/8033hill.html>

Cohen and Pant reported the results of a questionnaire distributed to potential accounting recruits who were accounting, other business and liberal arts undergraduate majors in the Northeast USA. The results indicate that the men and women in our sample had significantly different ethical awareness and ethical intention. In general, women viewed actions as less ethical and indicated a lower intention to perform an action than did men.

“The Effect of Gender and Academic Discipline Diversity on the Ethical Awareness and Gender Bias of Potential Public Accounting Recruits.” <http://les.man.ac.uk/ipa97/papers/cohen25.html>

Gender (cont.)

Female accountants are found to be more sensitive toward and therefore less likely than males to choose questionable actions, including those of earnings management.

Shawyer, T. J., Bancroft, P.C., and Sennetti, J.T. Gender Differences in Ethical Orientation and Evaluation by IPO Accountants
<http://aaahq.org/AM2003/EthicsSymposium/Session%205a1.pdf>

Douglas and Schwartz report female accountants make higher ethical judgments than their male colleagues for situations of both high and low moral intensity. (2002)

[/www.commerce.adelaide.edu.au/apira/papers/Davidson39.pdf](http://www.commerce.adelaide.edu.au/apira/papers/Davidson39.pdf)

Impact of College Ethics Courses

Those who took ethics courses in college had higher moral reasoning ability than those who did not.

Hill, N.T. and Stevens, K. Group Dynamics and the Moral Reasoning Ability of Accountants: Implications for the Curriculum and the Profession (Extended Abstract) January 18, 2002.

<http://aux.zicklin.baruch.cuny.edu/critical/html2/8033hill.html>

Attitudes toward Ethics Courses

Those students with the lowest levels of moral reasoning abilities are the least likely to favor required ethics training in accounting programs.

This may imply that students most in need of ethical training are less likely to seek it.

Eynon, G., Hill, N.T. & Stevens, K.T. (1997). 'Factors that influence the moral reasoning abilities of accountants: Implications for universities and the profession', *Journal of Business Ethics*, pp. 1297–1309.

Time in the Profession—UK Study

DIT scores tend to decline with time spent in the profession.

There is a negative correlation between respondents' DIT scores and the number of years since they qualified.

Partners' DIT scores were significantly lower than those of non-partners.

Accountancy graduates had the lowest DIT scores, followed closely by non-accounting business graduates.

Research about Business Majors

Business majors do more poorly than other college majors on tests of moral maturity (Rest, et al.)

However, when taught ethical reasoning skills, business majors make larger jumps in moral maturity than do other college majors (Rest, et al.)

Summary of Studies

1. Accounting professionals are not reaching their potential for higher levels of ethical reasoning because of the way they are educated, selected and/or promoted.
2. Ethical reasoning skills may be an important determinant of professional judgement.
3. Unethical behavior may be systematically related to auditor's levels of ethical reasoning.
4. Ethical reasoning skills increase as one progresses from staff to supervisory levels and then sharply decrease in managers and partners.

Accountants and Ethical Judgment (cont.)

5. Even though most adults experience a significant improvement in ethical development during college years, accounting education may inhibit development to higher stages of ethical reasoning.
6. CPAs and accounting students tend to be at lower levels of reasoning than comparable groups of college-educated adults.
7. Students who take ethics courses have higher reasoning skills than those who do not.
8. Canadian CPAs have higher ethical reasoning skills than do U.S. accountants.
9. Female accountants do better on tests of ethics than men.

Possible reasons for low scores:

Accountants who operate at higher ethical literacy levels are more likely to become dissatisfied and leave before they can be promoted,

or

accountants who operate at the conventional level possess certain attributes that are deemed attractive by professional firms and are more likely to be both retained and promoted.

Another reason: Traditional Accounting Education

Both Armstrong (1987) and Ponemon (1993) concluded that traditional accounting education inhibits moral development.

In other disciplines, greater moral growth has been found in interventions that provide experiences of moral challenge and accompanying moral emotions or commitments (Armon, 1998), i.e. where students have been fully engaged in the subject matter and with the people with whom they were working.

Traditional accounting education has been identified as emphasizing shallow, reiterative learning (Gray et al., 1994), where students do not engage with the subject and do not develop a deep approach to learning.

Another reason: Traditional Accounting Education

The type of education accountants receive could therefore be inhibiting the development of moral judgment skills by not creating a need for a deep reflective approach to learning (Gray et al., 1994).

Accounting lecturers could be using educational processes which encourage a surface approach to learning, and which may not be consistent with improved moral judgment in accounting students.

Warning Bells for Accounting Professionals

1. Fees are paid by the client rather than by the direct beneficiary of the independent auditing services (the general public).
2. Management consulting work is provided for the benefit of client management at the same time that an independent audit is being conducted. (SO has not changed this.)
3. Status and career attainment within the firm is often predicated on one's ability to develop new business.
4. Affiliation with personnel within the client organization often diminishes the accountant/auditor's objectivity.

Warning Bells for Accounting Professionals

(cont.)

5. Peer pressure within the public accounting firm often exacerbates dysfunctional work-related behaviors.
6. Competition for clients causes the "low balling" of auditing fees which often reduces quality of services.
7. The desire for job security may mitigate the disclosure of sensitive information in the work place.

What can accounting professionals do?

Require and support periodic ethics training of all licensees as part of the UAA.

- Not a rules-based course

- Not a state-specific course

- A course promoting critical thinking skills and ethical sensitivity and judgment (NASBA-AICPA joint effort)

What can accounting professionals do?

Lobby to change the CPA exam which currently reinforces rule-based accounting curriculum.

Persuade prominent accounting textbook authors and publishers to integrate case studies and content so that students can exercise their decision-making skills.

What can accounting professionals do?

Require and support an ethics component to undergraduate accounting education.

- Separate ethics course

- Integration of ethics content

- Require internships

- Smaller classes

- Make this an accreditation issue

What can accounting professionals do?

Encourage faculty development to move away from lecture method.

Encourage accounting recruiters to hire people who are more broadly educated.

What can accounting professionals do?

Become an ethical mentor and role model.
Remember that everything you say and
everything you do is important.

The Doctrine of Relative Filth

"I'm not so bad
so long as there
are other people
who are worse."

We judge ourselves

by our best intentions,
our most noble acts,
and by our most virtuous habits.

But we are judged
by the last worst thing we do.

What do these names have in common?

Jimmy Swaggart

National United Way

Woody Allen

Jesse Jackson

Martha Stewart

Marv Albert

O.J. Simpson

Pete Rose

Tailhook

Olympic Committee

The Components of Ethical Conduct



will

habit

ethical competence

Be on guard against:

- Science without humanity.
- Politics without principle.
- Pleasure without conscience.
- Work without sacrifice.
- Wealth without work.
- Commerce without morality.
- Knowledge without character.

--Gandhi

About Deborah H. Long

A veteran educator and real estate broker, Deborah became interested in the subject of real estate ethics in grad school. Her doctoral study on the effect of ethics instruction on Florida real estate agents generated a lightning storm of controversy in the industry.

She has written over 16 books, including *Doing the Right Thing: A Real Estate Practitioner's Guide to Ethical Decision Making*. Her workshops have earned national awards. Additionally, Deborah is one of 125 teachers in the U.S. awarded the DREI (Distinguished Real Estate Instructor), and she has been certified by the prestigious Josephson Institute of Ethics.

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